

2 pgs.

INTEROFFICE MEMORANDUM

October 7, 1997

To: Lynn Beasley
Ken Whitehurst
Jim Best
Dave Wilmeshire

Doug Shouse
Colleen Coyle
Pat Cundari

Jim Maguire
Jerry Moore
Rick Sanders

From: Yvette Willard

Subject: Salem Sniped Product Program Update

BACKGROUND

An analysis conducted early this year indicated that a key driver of SALEM's soft performance was its disadvantage to key competition in two areas — depth of promotion and breadth of promotion on display in Conv/Gas outlets. This disadvantage was being driven by both Kool and Newport's aggressiveness and SALEM being 4th priority for our Company's discounting efforts. A program utilizing 30% sniped product was developed to ease the executional burden of discounting SALEM.

RESULTS

The Jul/Aug wave of the program appears to have impacted both the depth and breadth of SALEM's promotional support in Con/Gas outlets. The BAN system indicates placements of SALEM's discounting increased 24% from 2Q to 3Q. MARLIN also indicates a positive impact, especially in breadth of promotion on display (up 27% in August versus June). Even with these improvements however, SALEM continues to be at a disadvantage to Newport/Kool.

C/G - August

	Salem	Kool	Newport
% Volume PV	15.9	19.8	8.6
% CIV Display With PV	18.5	31.8	23.0

FIELD RESPONSES

- RR responses to the program have been positive in that it has eased the discounting execution burden at retail.
- ROUs have raised concerns regarding the administrative/selling side of the program since it was handled outside of normal workplan procedures.

PROGRAM EVOLUTION

1) Payment Method

- Current program requires Field (KAM/AM/SR) to pay at retail account level for discount amount.
- Cumbersome, time consuming, has caused retailer confusion.
- Revised program will be off-invoice with each account's retail accrual statement being charged via template update.

Issues

1) Problem of moving (P) allocated to Region?

2) Problem of outside chain referrals?

AM/AM

51852 3864

2) Allocation Process

- Administering current program is completely manual.
 - KAM/AM/SR must manually calculate quantities per store.
 - ROUs must manually transfer product, build D.A. allocations and store lists.
- Revised program will utilize store level allocation methodology.
 - IR is developing account level model which matches store AIM to region quantity grid for divisions with CG on grid for SALEM.
 - Model recommends appropriate quantities of sniped product for each store by style vs. family
 - KAM/AM/SR verifies quantities, resulting in automated promotion template.

TIMING

10/10 FSC letter explaining transition
12/1: IR to have model available for Field input
1/15: Field will have verified/corrected quantities in system
2/16 First order date by Field Sales
4/6: DTS for revised sniped program

IMPLICATIONS

- Quantities left from Wave I (Jul/Aug) and II (Sep/Oct) allocations are adequate to complete 1997
 - Continue to supplement with Discount On Demand program and RR execution in accounts which can not accommodate sniped product
- Jan-Mar '98 — While the process is being automated, SALEM discounting to be executed via DOD or Rep implemented at store level, per JRM model target levels.
The Field must ensure that SALEM remains competitively priced and displayed at retail during this period.
- Apr-Dec '98 — SALEM discounting to be executed via revised sniped product program which is treated as monthly workplan versus ad hoc promotion. Continue to be supplemented via DOD/RR where sniped product is not feasible.

NET

The SALEM sniped product program has been successful in easing the execution burden at retail, but it has resulted in an administrative burden on the selling side of the Field. With the above enhancements, this program will be more efficient and effective, with the net result of SALEM being more competitive in its discounting efforts at retail.

Yvette

Yvette J. Willard

cc: Tom Odom
Steve Qualkinbush
Theresa Coleman
Jeanne McKinny

John Ellegate
Denny Bourgarden
Brad Calloway

Don Fitzgerald
Floyd Cook
Shelley Malloy

51852 3865